

FISCAL IMPACT STATEMENT ON BILL NO. **H3789**

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TO:	The Honorable Daniel T. “Dan” Cooper, Chairperson, House Ways and Means Committee		
FROM:	Office of State Budget, Budget and Control Board		
ANALYSTS:	Allan Kincaid and Beth Campbell		
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AUTHOR:	Representative Kirsh	PRIMARY CODE CITE:	1-11-703
SUBJECT:	Retiree Health Insurance Trust Fund		

ESTIMATED FISCAL IMPACT ON GENERAL FUND EXPENDITURES:

A Cost to the General Fund (See Below)

ESTIMATED FISCAL IMPACT ON FEDERAL & OTHER FUND EXPENDITURES:

A Cost of Federal and/or Other Funds (See Below)

BILL SUMMARY:

This Bill will add/amend several sections of the Code of Laws of South Carolina, 1976, to account for other post-employment benefits (OPEB) in accordance with new accounting standards issued by the Governmental Accounting Standards Board (GASB). These benefits primarily include medical, prescription drug and dental insurance provided to all eligible state and school district retirees and the basic long-term disability benefits provided to state and school district employees. To comply in part with the new standards, the Bill establishes two trust funds as the method for paying and accounting for retiree health insurance and basic long-term disability income benefit plan premiums. As part of the funding for the retiree health insurance trust fund, Section 4 of the Bill provides that the employer contribution rates as a percentage of payroll for the state retirement systems shall be increased by one percent above what is required to fund the Fiscal Year 2007-08 employer premiums for providing health and dental coverage to current retirees. In subsequent years, the employer contribution rates will be increased by one percent until the minimum annual other post-employment benefit cost is attained in accordance with the new accounting standard.

EXPLANATION OF IMPACT:

Health and Dental Plans – State and School District Retirees

Currently, the State provides other post-employment benefits for retirees on a “pay as you go” basis by adding a payroll surcharge to the employer contribution rates of the South Carolina Retirement System and the Police Officers Retirement System. For the current fiscal year, the Employee Insurance Program (EIP) expects to collect approximately \$226 million from the surcharge.

An analysis of the long-term cost for providing retiree health benefits by the EIP and its actuary resulted in an unfunded actuarial accrued liability of \$10 billion as of July 1, 2006. To fund this \$10 billion unfunded actuarial accrued liability, the EIP and its actuary calculated there should be an annual required contribution of \$777 million assuming a 4.5% investment discount rate. Since this Bill is establishing a trust fund to advance a funding plan for the OPEB obligation, GASB allows a higher discount rate to be used in calculating the OPEB liability. Using the investment discount rate of 7.25% adopted for the State’s retirement systems, which include equity investments, the annual required contribution would be approximately \$565 million. To reach this annual required contribution, the payroll surcharge will increase 1% each year until the minimum annual other post-employment benefit cost is attained. The following table shows the annual total and general fund costs to increase the retiree surcharge by 1% for each of the next five years with a 5% annual payroll growth.

Payroll Surcharge to Fund Retiree Health Insurance (OPEB)

	1% Annual Growth in Payroll Surcharge				
	1.00%	2.00%	3.00%	4.00%	5.00%
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Totals	70,724,286	148,521,000	233,920,574	327,488,805	429,829,056
General Fund	47,436,280	99,616,190	156,895,499	219,653,698	288,295,478
Federal/other funds	23,288,006	48,904,810	77,025,075	107,835,107	141,533,578

Basic Long Term Disability Benefits – Plan

A review of the Plan by the EIP and its actuary indicates there is an unfunded actuarial accrued liability of approximately \$28 million as of June 30, 2006. According to the EIP the Plan has a reserve of approximately \$26 million, which is in part available to fund most of the unfunded liability. Therefore, there would be no required change in employer contribution rates to meet the unfunded liability.

Retiree Participation in State Health and Dental Plans

The proposed changes in eligibility of retirees in the state health plan affects employees employed after the enactment of this Bill. Therefore, any significant reduction in the funding obligation of the health and dental plans will not be determined for several years.

Retirement System Investment Commission

At this time, the agency has not reported that there will be any impact on the General Fund of the State or on federal and/or other funds.

State Treasurer's Office

The Office reports any costs of this Bill will be minimal and would be absorbed by the agency.

LOCAL GOVERNMENT IMPACT:

None.

SPECIAL NOTES:

None.

Approved by:



Harry Bell
Assistant Director, Office of State Budget